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99th Congress
2d Session

COMMITTEE PRINT

# BANKING FOR THE POOR: ALLEVIATING POVERTY THROUGH CREDIT ASSISTANCE TO THE POOREST MICRO-ENTREPRENEURS IN DEVELOPING COUNTRIES

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## REPORT

OF THE

## SELECT COMMITTEE ON HUNGER
## U.S. HOUSE OF REPRESENTATIVES

MAY 1986

Printed for the use of the Select Committee on Hunger

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U.S. GOVERNMENT PRINTING OFFICE
60-425 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H962-7

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## LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON HUNGER,
*Washington, DC, May 19, 1986.*

*To Members of the Select Committee on Hunger:*

I am pleased to transmit to Committee members the enclosed report "Banking For the Poor: Alleviating Poverty Through Credit Assistance To The Poorest Micro-Entrepreneurs in Developing Countries."

I believe this bipartisan report documents the significant impact credit assistance to poor micro-entrepreneurs in developing countries can have to raise the living standards of the poor, increase food security and bring about sustainable improvements in local economies.

Sincerely,

MICKEY LELAND,
*Chairman.*

## EXECUTIVE SUMMARY

Since its inception in 1984, the Select Committee on Hunger has been investigating ways to alleviate hunger and malnutrition in developing countries. Towards this goal, Hunger Committee activities have been successful in providing much needed food assistance, health care interventions and rehabilitation supplies to the famine victims in Sub-Saharan Africa. As development and economic growth in Africa becomes increasingly critical in averting famine and severe malnutrition, the Select Committee on Hunger has taken the lead in investigating numerous appropriate mechanisms to achieve long-term development objectives in developing countries.

On February 25, 1986 the Select Committee on Hunger in conjunction with the House Banking Subcommittee on International Development Institutions and Finance held a hearing on the effectiveness of entry-level micro-enterprise finance and the role of multilateral development institutions in providing such financial assistance to entry-level micro-entrepreneurs. The Select Committee on Hunger found that the provision of small amounts of credit to micro-enterprises in the informal sector economy of developing countries can significantly raise the living standards of the poor, increase food security and bring about sustainable improvements in local economies. Further, Committee research and hearing testimony indicate that making credit available to entry-level micro-entrepreneurs is one way to help end the cycle of poverty and hunger among urban and rural landless poor in developing countries.

This report explores the provision of credit to the poorest of the poor; investigates the credit needs of the poor; assesses the successes of micro-enterprise credit projects; and, makes recommendations for the enhancement of credit assistance to entry-level micro-entrepreneurs in developing countries.

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## INTRODUCTION

A Bangladeshi mother of two young children, Mrs. Momena Bewa, was destitute. As a landless single parent she had wandered from village to village with her children, eking out a living by finding odd jobs. She scrimped on food and lived in makeshift housing. Now, Mrs. Bewa is self-employed in a small business peddling housewares. She has income to purchase food for her children, has made a down payment on her own hut, and has taken a leadership role among a group of entry-level micro-entrepreneurs in her community. The catalyst was a $35 loan from the Grameen Bank, a bank instituted in Bangladesh for the sole purpose of lending to poor landless people.

The preceeding true story illustrates the social and economic impact small amounts of credit assistance can have on the lives of the very poor. The elimination of poverty is the most direct approach for assisting the poor to meet their basic human needs of food, shelter and clothing. Poverty is not the result of a poor person's unwillingness to work hard or lack of skills, rather, poverty exists because the poor do not receive adequate compensation for their work.

The following testimony from Dr. Muhammad Yunus, Managing Director of the Grameen (Rural) Bank in Bangladesh, illustrates this cycle of endless poverty: "I went into the village [in Bangladesh] to find out why people remain poor, why they can not overcome their poverty.... I met a women in that village who was working all day to make bamboo stools. At the end of the day she made only two pennies..... On closer scrutiny, I found that it is because she did not have the small amount of money to buy the bamboo to make the bamboo stool, so she borrowed the money from the trader who will buy the final product, the bamboo stool, from her. As a result, the trader dictated the price, which barely equaled the cost of the raw materials [the bamboo]."

Constant indebtedness to traders, informal moneylenders, loansharks or relatives perpetuates the poverty of poor people in developing countries. Formal financial institutions in developing countries do not recognize the viability of income-generating enterprises owned by the poor. These formal financial institutions prevent the poor from gaining access to legal credit through extensive collateral requirements and difficult repayment schedules.

Documented increases in incomes of micro-enterprise borrowers and successful repayment rates among poor borrowers have begun the process of penetrating the barriers of formal financial institutions which have previously excluded the poor. Emphasis must be placed on the elimination of barriers, such as collateral and literacy requirements. In addition, this report substantiates the need for bilateral and multilateral financial assistance to better target assistance to entry-level micro-enterprises owned by the very poor.

## WHO NEEDS CREDIT

### The Informal Sector

The **informal sector** in developing countries is composed of numerous micro-enterprises initiated by the working poor in sprawling urban centers and rural villages of developing countries. These entry-level micro-enterprises include the hawkers and venders seen peddling their wares on street corners, the farmers and hucksters who sell locally grown foodstuffs in remote villages and towns, and the entrepreneurs who recycle used bedsprings, make brooms, sew clothing in their homes or in little shops located in alleyways and shantytowns.

According to ACCION International, a non-profit development agency specializing in micro-enterprises, informal sector activities employ from 30 to 70 percent of the labor force in developing countries. Moreover, these enterprises can comprise 80 to 90 percent of the business activities in a typical poor neighborhood or village in a developing country. In Lagos, Nigeria (estimated population of 6 million), approximately one-half of the employment is in the informal sector; in Bombay, India, the figure is about 55 percent. It has been estimated that 78 percent of the furniture and 90 percent of the clothing in Lima, Perú, are produced in the informal sector. In San Salvador, El Salvador, it is estimated that 85 percent of poor households are engaged in "micro" informal sector businesses, which often provide 50 percent or more of household income.

The informal sector business, however, is not found only in urban areas. Rural off-farm employment provides a very important source of income for rural households. Rural off-farm enterprises employ approximately 43 percent of the rural labor force in Colombia, 28 percent in Kenya and 37 percent in Malaysia. According to a survey conducted by Michigan State University, non-farm activities in rural areas provides a source of employment for 30 to 50 percent of the rural labor force in developing countries. Non-farm activities in rural areas include manufacturing, services, construction, and the delivery of such items as sanitation supplies. The most important rural non-farm activities in the majority of developing countries are clothing production, wood and metal works, and food processing. For example, 53 percent of the clothing in rural Sierra Leone was produced by the informal sector, 41 percent in Korea, 32 percent in West Nigeria, and 52 percent in rural Bangladesh.

Informal sector businesses have been defined by the number of workers employed, by its source of capital financing and by the fact that they operate outside government regulation and protection. Most informal sector businesses are family operated businesses relying on family members for labor and for capital investment. Dr. Carl Liedholm, Michigan State University, defines micro-enterprises as those businesses which employ less than fifty workers and formulate a significant portion of the industrial sectors of most developing countries (See chart 1). However, ACCION International reports that the vast majority of micro-enterprises comprise fewer than 3 workers. According to the Policy Sciences Center, Inc., informal sector micro-enterprises are owned by the poor, and defined as those persons earning less than one-quarter of the national per capita income average in a developing country. Micro-enterprises while labor intensive, have very little division of labor with the average laborer relying on existing skills and low levels of technology.

For the purpose of this report, the term "micro-enterprise" reflects those income-generating activities initiated and owned by the landless urban and rural poor in developing countries. World Bank basic indicators are often used to determine the economic level of the poor in need of credit assistance. Micro-entrepreneurs in need of such credit assistance are those who have had no prior access to formalized credit and, therefore, rely on local moneylenders, loansharks, friends and relatives to meet their credit needs.

Chart No. 1.--Distribution of Employment in Manufacturing by Firm Size (percentage)

| Country and date | Per capita Income ($) 1982 | Firm Size (number of workers) Large Scale 50 or more engaged | 10-49 engaged | Small Scale below 10 engaged |
|---|---|---|---|---|
| India-1971 | $260 | 38% | 20% | 42% |
| Tanzania-1967 | $280 | 37% | 7% | 56%[a] |
| Ghana-1970 | $360 | 15% | 1% | 84%[a] |
| Kenya-1969 | $390 | 41% | 10% | 49%[a] |
| Sierra Leone-1974 | $390 | 5% | 5% | 90% |
| Indonesia-1977 | $580 | 16% | 7% | 77% |
| Honduras-1979 | $660 | 24% | 8% | 68% |
| Thailand-1978 | $790 | 31% | 11% | 58%[a] |
| Philippines-1974 | $820 | 29% | 5% | 66% |
| Nigeria-1972 | $860 | 15% | 26% | 59%[a] |
| Jamaica-1978 | $1330 | 49% | 16% | 35% |
| Colombia-1973 | $1460 | 35% | 13% | 52% |
| Korea-1975 | $1910 | 53% | 7% | 40% |

Note: [a] Computed as a residual, which is the difference between employment recorded in labor force or population surveys (includes all sources) and establishment surveys.

Sources: Africa: computed from Page (1979) and Liedholm and Chuta;
India: Mazumdar (1980);
Indonesia: computed from Snodgrass (1979);
Honduras: Stallmann (1985);
Thailand: World Bank (1983);
Philippines: Anderson and Khambata (1981);
Jamaica: Fisseha (1982);
Colombia: Berry and Pinell-Siles (1979);
Korea: Ho (1980).

Source: Carl Liedholm and Donald Mead, "Small Scale Enterprises in Developing Countries: A Review of the State of the Art," MSU International Development Papers, East Lansing, Michigan (forthcoming).

**WOMEN**

Women are disproportionately represented in the informal sector. In Peru, when domestics are excluded, 40 percent of the informal sector labor force and 61 percent of the self-employed are women. In Brazil, approximately 50 percent of the informal labor force is women. In Botswana, Tanzania, and Nepal, more than 80 percent of the total female labor force is self-employed in the informal sector.

Most micro-entrepreneurs lack formal education, as well as traditional vocational training, relying on skills learned through family apprenticeships. Women perfect their skills through the traditional domestic chores of raising children and providing food and clothing. Such daily chores are often applied towards income-generating activities including sewing, trading and food processing.

Informal sector activities are a major source of employment for women. The smaller the enterprise the greater the percentage owned by women. Additionally, the increasing numbers of women-headed households have made income-generating activities a hign priority for women. This is especially true in rural areas where male migration to urban centers has resulted in increasing numbers of women who not only are the food producers, but who also manage their farms alone.

Women have very little access to formal sector employment or commercial credit due to a variety of social and cultural biases, as well as educational and skills training disparities between men and women. Thus, women often find self-started household- based activities as their only means of earning income.

## SOCIO-ECONOMIC BENEFITS:
A Case For Credit Assistance

### Linkages To The Surrounding Economy

Change in income is a key indicator of the impact of micro-enterprise credit assistance programs. A recent report Searching for Benefits by Peter Kilby and David D'Zmura, shows that measured in terms of increased national income, capital assistance to micro-enterprises is one of the most successful mechanisms for international donor assistance. The success of lending to micro-enterprises is examined at both the enterprise level and in the local economy surrounding the enterprise. Backward linkages, a term used to evaluate the indirect benefits to society and the surrounding economy, may also be used to evaluate the impact of micro-enterprise credit projects.

The primary markets for products of micro-enterprises are local. Therefore, increases in the demand for local products are closely linked with increases in the income and health of the economy. This is particularly true among rural and urban low-income households as they are the predominant consumers in the "informal" sector. Improvements in the incomes of the poor generate a demand for goods and services produced within their own villages and communities, thus mutually supporting the variety of traditional businesses in their communities. This reliance creates an environment for continued economic activity for the surrounding economy.

The viability of micro-enterprises is related to the health of the economy. If the local economy is improving, or is stabilized, the success of small income-generating businesses is greatly enhanced. However, if the local economy is on a downward trend the success of a micro-enterprise is adversely affected.

According to ACCION International, micro-enterprise credit is also cost-effective. ACCION research has shown that credit generates a "multiplier effect," i.e., for every $1 loaned earnings of $4 to $5 are generated. This "multiplier effect" helps poor communities prosper. When the poor are more productive, they earn more enabling them to employ laborers to improve their homes, purchase clothing from other micro-entrepreneurs, and take care of their children's health and educational needs. All of these components work together to stimulate the local economy.

According to a study conducted by Michigan State University for the Agency for International Development, evidence has been collected which indicates that small firms in the industrial sector consistently generate more output per unit of capital than do their larger scale counterparts. The following chart illustrates the economic efficiency of micro-enterprises in terms of economic profit generated per unit of capital when all inputs including family labor and capital are valued at market costs. The chart demonstrates that micro-enterprises are not only economically efficient but are consistently more efficient than larger enterprises (see Chart 2).

Chart No. 2.--Capital Productivity and Economic Profits--Large and Small Scale Enterprises in Africa and Latin America

| Country/Enterprise Type | Value Added / Capital Services: Large[1] Scale | Value Added / Capital Services: Small[2] Scale | Economic Profit[3] / Capital Stock: Large Scale | Economic Profit[3] / Capital Stock: Small Scale |
|---|---|---|---|---|
| Sierra Leone (1974) | | | | |
| Clothing | 1.7 | 8.3 | -27% | +59% |
| Bread | 1.7 | 12.4 | -11% | +12% |
| Rice Milling | 1.4 | 57.1 | -30% | +80% |
| Botswana (1982) | | | | |
| Sorghum Beer | 6.2 | 19.6 | +130% | +190% |
| Egypt (1982) | | | | |
| Clothing | 2.6 | 8.5 | +17% | +42% |
| Metal Products | 1.5 | 18.5 | -3% | +103% |
| Honduras (1980) | | | | |
| Clothing | 2.5 | 6.9 | -21% | +45% |
| Furniture | 1.9 | 13.9 | -26% | +58% |
| Shoes | 0.9 | 12.5 | -22% | +102% |
| Leather Products | 1.5 | 10.6 | -21% | +79% |
| Metal Products | 1.4 | 12.1 | -24% | +23% |
| Jamaica (1979) | | | | |
| Clothing | 1.6 | 10.5 | -11% | +86% |
| Furniture | 2.3 | 13.1 | -0.4% | +173% |
| Shoes | 2.3 | 17.8 | -6% | +247% |
| Metal Products | 2.8 | 6.6 | 16.9% | +56% |

Sources: **Honduras** - small scale: data collected during 1980 survey of 485 rural small scale industries conducted by CDI and MSU; large scale: computed from worksheets of 1975 Industrial Census of Honduras (firms included ranged in size from 50 to 500 employees; **Jamaica** - small scale: data collected during 1979 survey of 197 rural and urban firms conducted by MSU, SEDCO, and University of the West Indies; large scale: 1977 industrial survey conducted by NPA; **Botswana** - Steve Haggblade, "The Shabeen Queen," Ph.D. dissertation, MSU, 1983; **Egypt** - small scale: data collected during 1982 survey of 460 manufacturing enterprises in two governorates, Fayoum and Kalyubiya; large scale: GOFI Investment Approvals, 1976. **Sierra Leone** - C. Liedholm and E. Chuta, The Economics of Rural and Urban Small Scale Industries in Sierra Leone, African Rural Economy Paper #14, 1976.

Notes: [1]Large scale firms are those employing fifty or more workers. [2]Small scale firms are those employing less than fifty workers. [3]In making these calculations, the following have been subtracted from value added: a) capital services valued at shadow interest rate; b. labor costs, including inputs of family workers and proprietors valued at the competitive wage in that industry. A marginal firm or industry would posses economic profits of zero.

**Increases In Income**

The following case studies demonstrate the profitability and change in income that result from the extension of micro-enterprise credit:

The **Grameen Bank Project in Bangladesh** has shown a positive impact on the income of Grameen Bank borrowers. In four years, this project has grown to support 226 local bank branches and currently operates in 3,600 villages. The project has extended over $30 million in loans to approximately 156,000 borrowers, all rural and landless poor. The average loan size is $60 with a repayment rate of near 99 percent. Household incomes rose about 70 percent in nominal terms over 2 1/2 years among the Grameen Bank borrowers. This increase is compared to the annual average income increase for landless and rural poor in Bangladesh of approximately 2.6 percent.

The **Rural Development Fund (RDF) of the Industrial Bank of Peru,** a development bank, extended approximately 6,200 loans totaling $43 million to about 3,000 micro-entrepreneurs. At the end of six years, a survey conducted by the Rural Development Fund showed an average sales increase of 160 percent among borrowers, from the time of the first loan and the date of the survey. Each dollar loaned was found to produce, on average, a 29 cent increase in gross income a year. Sales increased at an average of 31 percent annually, while net profits rose about 54 percent annually among micro-entrepreneurs. The income of RDF borrowers increased an average of 53.5 percent annually.

The **World Bank's Calcutta Urban Development Program II,** extended approximately 3,500 loans totaling approximately $890,000 (Rupees 8.9 million) from 1977 to 1983. World Bank survey data show an average increase of at least 60 percent in the household income of loan recipients. Under the program, income for borrowers in the clothing businesses increased by more than 180 percent, approached 68 percent in the manufacturing and repair sectors, and reached more than 45 percent in the trade and services categories.

The **Costa Rica Emprendamientos Urbanos con Garantia Solidaria/ AID to Urban Businesses through a Solidarity Guarantee Program** in San Jose, implemented a project to assist micro-enterprises consisting of street venders, small store owners such as fruit venders and small restaurants, and service industries such as shoemakers and seamstresses. Loans were dispursed to approximately 447 members of 83 solidarity groups (see case studies) of whom 63 percent were male and 37 percent were female. The loans were to be paid back in weekly installments within one year. Six months after receiving a loan, the median income of recipients had increased 96 percent (after adjustment for inflation). By the end of the first year, median income had increased 145 percent (after adjustment for inflation). All categories of loan recipients registered similar improvements in income. The following breakdown illustrates recipient reaction to the program: 8 percent of the recipients said they were making the same or less money than before the loan; 48 percent of the recipients registered earnings slightly higher than before receipt of the loan; 25 percent registered earning twice as much as before receipt of the loan; and, 18 percent indicated they had more than doubled their incomes as a result of the loan.

**Investment Of New Earnings**

Increased earnings has, in some cases, shifted household spending priorities, generated new investments and new enterprises. The Grameen Bank project shows that prior to the program, 50 percent of the recipients listed one income-generating activity. The number of the program's recipients with two income-generating activities increased by 20 percent, while the number of recipients involved in three income-generating activities increased by 24 percent. According to a study by Robert G. Blayney and Maria Otero for the U.S. Agency for International Development, these findings suggest the rural poor have skills and abilities that are underutilized because of a lack of capital, and when capital is made available at least a portion thereof is used to initiate additional income-generating activities.

In addition to diversification in income-generating activities, increases in income provide for "non-productive" needs such as health care, education, payment of previous debts, and basic needs such as clothing and food. The Self-Employed Women's Association (SEWA) program in India demonstrated that additional income earnings reduces indebtedness to local moneylenders and was beneficial to the program's recipients in the long-term. Less reliance upon moneylenders allows for more disposable income for reinvestiment in current income-generating activities and for initiating new activities. The Badan Kredit Kecamatan Program (BKK) in Indonesia has yielded similar findings: BKK borrowers have contributed to the economic growth of their communities by spending more on personal consumption through their increased purchasing power. Approximately one-third of the borrowers have used their business profits and about 40 percent of the borrowers have used their savings for purchasing household supplies and making housing improvements. In addition, investment of new earnings generated from non-agricultural enterprises have also been used for family food production as a secondary economic activity among BKK borrowers.

**Savings**

The generation of savings among micro-enterprise borrowers is another measure of the impact of credit assistance on the incomes of the poor. The promotion of a savings component in micro-enterprise financing projects is a key element to the success of the projects. Arguments that the poor cannot save can be countered by examining credit projects which include a mandatory or voluntary savings component in the credit programs.

Hearing testimony documented substantial savings among Grameen Bank borrowers in Bangladesh of a total savings over $3 million. Over 40 percent of the borrowers in the Badan Kredit Kecamatan Program in Indonesia have their own savings accounts. India's Self-Employed Women's Association (SEWA), whose members have had no prior experience of saving, increased the number and size of their savings from 10,000 individual accounts with a total savings of $100,000 in 1976 to 14,000 saving accounts totaling $300,000 in 1981.

**Loan Repayments**

Micro-enterprise projects have recorded significant and impressive loan repayment rates. Testimony from the Grameen Bank in Bangladesh, cited a constant loan repayment rate of nearly 99 percent since the bank's inception. Other micro-enterprise credit programs have yielded similar results. ACCION International, a nonprofit voluntary organization working with micro-enterprise borrowers, reports that their projects have achieved a loan payback record of 95 percent. The Badan Kredit Kecamatan Program in Indonesia reports high repayment rates of over 80 percent.

These results illustrate the willingness of the poor to utilize their skills to make profits for continued investments, their ability to generate savings and their credit worthiness with reliable loan repayments. The case studies in the appendix illustrate the types of incentives micro-enterprise credit programs have initiated to promote continued loan repayment and savings generation.

## MICRO-ENTERPRISE FINANCING MECHANISMS

Informal sector enterprises face several disadvantages. In most developing countries there is virtually no access to institutional credit for the informal sector. Four types of financial mechanisms provide direct capital to micro-enterprises. These organizations are for-profit firms that are regulated or "formal", for-profit firms that are unregulated or "informal", relatives and friends, and not-for-profit organizations.

### For-Profit Firms (Formal or Regulated)

The **for-profit firms** that are in the **formal or regulated sector** that lend to micro-enterprises are commonly found to be indigenous commercial banks. The success of these banks is due to the larger scale of lending. Micro-enterprise borrowers face several disadvantages in securing formal credit. Conventional banks regard lending to micro-enterprises as too risky and costly to administer. Likewise, rigid collateral requirements, extensive credit guarantees, and inappropriate repayment schedules for micro-enterprise borrowers make it difficult, if not impossible, for micro-enterprise borrowers to obtain credit. The cumbersome transaction costs in terms of time and effort spent to get a loan often results in deterring micro-entrepreneurs from obtaining credit. Women, often less educated and without guaranteed collateral, find themselves particularly disadvantaged because of the strict requirements of institutional lenders. Thus, women engaged in small-scale informal enterprises may not be considered good credit risks because they lack the documentation of formally registered businesses.

### For-Profit Firms (Informal)

The **for-profit firms** in the **informal sector** include **loansharks** or **moneylenders** of various types. These moneylenders can range from friends of the borrower to large farm owners, store owners and persons whose sole business is moneylending. Unfortunately, these moneylenders often charge very high interest rates either because the costs of providing small loans and flexible pay back rates are high or they are in a position to take advantage of monopoly profits. According to a 1984 study conducted by the International Fund for Agricultural Development (IFAD) of the Grameen Bank, moneylenders in Bangladesh typically charge interest rates of 120 to 200 percent per annum. In contrast, the Grameen Bank charges an interest rate of 16 percent per annum.

### Friends and Relatives

**Friends and relatives** were also found to be a crucial source of working capital for businesses as they developed. Relatives rarely turn down requests for small loans, because a loan to a family member is in one sense a loan to the entire family. Relatives are usually nearby, thus making loans accessible and easily arranged. According to an investigation of a women's cooperative in Kenya, conducted by Achola P. Okeyo in 1979, approximately 60 percent of informal sector agricultural traders obtained their start-up capital from relatives. In addition, repayment of loans from relatives may not be required until the borrower is in a position to repay.

**Not-For-Profit Organizations**

The **not-for-profit organizations** that lend to micro-enterprises can be either indigenous or based in a developed country. The Inter-American Foundation based in Washington, D.C. provides wholesale funds to indigenous local non-profit organizations in developing countries. The local non-profit organization acts as the financial intermediary between the wholesaler of the capital and the micro-enterprise borrower.

**Financial Intermediaries**

Financial intermediaries often serve as the link between the central financing institution which is providing the capital, and the micro-enterprise borrower in developing countries. Financial intermediaries are often found to be non-profit voluntary agencies, development foundations as well as local cooperatives and associations.

The following financial intermediaries are illustrative of those which carry out micro-enterprise credit programs in developing countries:

**Private Agencies Collaborating Together (PACT)** makes grants to indigenous organizations for micro-enterprise credit programs in Latin America, Africa, Asia and the Caribbean;

**Inter-American Foundation's** micro-enterprise credit programs have been most successful in the Caribbean and Latin America with particularly successful projects in the Dominican Republic, Costa Rica, Bolivia and Haiti;

**ACCION International** makes credit and management assistance available through indigenous organizations exclusively in Latin America to entry-level micro-enterprises in both urban and rural areas;

**Appropriate Technology International** gives grants to indigenous cooperatives and development agencies to enable them to introduce new and improved technologies by making credit, technical assistance and supplies available to micro-enterprises;

**Institute for International Development, Inc.**, works through local branches in developing countries in Latin America, Africa and Asia by extending credit, and to a lesser extent management assistance, to micro-enterprises mostly in urban areas. Potential clients are recommended through local church organizations;

**Overseas Education Fund/International** works with indigenous organizations in developing countries to expand poor women's employment opportunities by promoting the development of micro-enterprises;

**Partnership for Productivity International**, working primarily in rural African and Caribbean countries, provides credit assistance to micro-enterprises as well as assists borrowers to generate savings and to expand their skills;

**African Development Foundation**, working in West, East and Southern Africa, promotes micro-enterprise development through community development projects and indigenous organizations;

**Trickle Up Program, Inc.** assists micro-entrepreneurs in Africa, Asia, the Caribbean and Latin America. Trickle Up Program is operating in developing countries providing credit assistance to groups consisting of five or more micro-entrepreneurs; and,

**Technoserve** works in Latin America and Africa. Technoserve provides assistance to larger cooperatives which, in turn, provide assistance to smaller producers and rural enterprises. Assistance provided includes credit, management assitance, and production technologies.

**Group Loans**

The formation of groups is an effective mechanism for expanding credit assistance to the very poor. Benefits of group formation range from group pressure to ensure savings and loan repayment to investments in larger business ventures which individual micro-entrepreneurs may find too risky to undertake alone. The smaller the size of the group the more effective the solidarity component to ensure group cooperation, savings and income generation.

The Grameen Bank Project in Bangladesh uses the group structure to ensure loan repayment and savings. Grameen Bank borrowers must form themselves into groups of five in order to receive loans for which no collateral is required. Before an individual in the group can obtain a loan from the Grameen Bank, the group undergoes a training session to learn the rules and procedures of the Grameen Bank. Each group has a chairman and a secretary elected by the group. The group members must pass a test at the end of their training before they may obtain a loan from the Grameen Bank. Each member of the group must attend weekly group meetings and contribute a portion of their earnings to the group savings. The group structure in the Grameen Bank Project serves a number of key purposes: it gives individuals security to take risks they may not have undertaken alone; provides a source of pressure on individuals to fulfill repayment and savings obligations; and, provides organizational support for the advancement of economic and social goals. Additional information on the Grameen Bank group structure can be found in the Appendix.

## WHOLESALERS OF CAPITAL

Indigenous central banks, bilateral government agencies and multilateral inter-governmental agencies all provide wholesale capital to financial organizations.

### Central Banks

**Central and commercial banks** have provided a limited source of capital and guarantees to retailers for micro-enterprise lending. Commercial banks and financial institutions have developed more efficient lending techniques than other formal sector channels for lending in developing countries. Nevertheless, commercial banks tend to be inflexible with regard to repayment schedules and impose rigid collateral requirements. Additionally, commerical banks tend to concentrate on large scale loans which do not reach the small informal sector micro-entrepreneur. According to ACCION International, it has been estimated that, on the average, less than 5 percent of small farmers in Africa have had access to commercial credit.

### Bilateral Governmental Agencies

**Bilateral governmental agencies** such as the U.S. Agency for International Development (AID) have provided capital to both non-profit and for-profit commercial lenders. AID implemented a project in 1978 (Small Enterprise Approaches to Employment) for the purpose of improving AID's understanding of small enterprises. Assessments of the initial findings of this project led AID to fund the "Program for Investment in the Small Capital Enterprise Sector", referred to as the PISCES project. The purpose of PISCES was to identify the needs of micro-entrepreneurs and to outline a program for investing in small-scale enterprises. The first phase of the PISCES study assesses pilot projects in Latin America, Asia, and Africa. PISCES Phase I concluded that it is possible to effectively assist the smallest enterprises in the "informal sector". PISCES Phase II evaluates micro-enterprise projects carried out by non-profit voluntary agencies and financial intermediaries in Asia, Latin America and Africa.

Hearing testimony revealed that several other bilateral donors are interested in micro-enterprise finance for the poor in developing countries. The Policy Sciences Center, currently in the process of setting up an international ministry-level conference on micro-enterprise finance, reported that bilateral government programs initiating projects and funds for Third World micro-enterprises include those supported by Canada, the United Kingdom, Holland, France, Germany, Sweden and Switzerland.

### Inter-governmental Multilateral Agencies

**Intergovernmental multilateral agencies** such as the World Bank, the Inter-American Development Bank, and the International Fund for Agricultural Development have provided capital to both for-profit commercial lenders and non-profit financial intermediaries.

The **Inter-American Development Bank (IDB)** initiated a small projects unit in 1978 to help finance the lowest income groups in Latin America to carry out self-improvement projects to raise living standards. The IDB's program is aimed at groups of people who have little or no access to institutional credit. In 1984, the IDB financed approximately 23 small projects totaling $8.5 million under the small projects unit. Under this program, the Bank provides financial and technical assistance to cooperatives, foundations, associations and other non-profit community organizations whose principle purpose is to

help low-income groups raise their living standards. While the IDB's special projects unit is the only multilateral development bank to establish a special fund for financing to micro-enterprises, the effort is relatively small. Out of a total loan volume of approximately $30 billion, the IDB provided roughly $8.5 million for small projects in 1984. This is approximately .03 percent of the IDB's total loan volume.

The **International Fund for Agricultural Development** (IFAD) provides credit assistance to micro-entrepreneurs principally involved in increasing food production. Participating countries contributing to IFAD include members of the Organization of Petroleum Exporting Countries (OPEC) and the Organization for Economic Cooperation and Development (OECD). One of the most successful IFAD-financed projects in the field of credit assistance to poor micro-entrepreneurs is the Grameen (Rural) Bank project in Bangladesh. In 1981, IFAD provided a credit line of $3.4 million, matched by the Bangladesh Bank, which enabled the Grameen Bank to expand its operations to reach more borrowers. The Grameen Bank has loaned approximately $30 million to 156,000 borrowers with support from IFAD. Further expansion funds totaling $38 million are expected from IFAD, the Swedish International Development Agency (SIDA), and the Norwegian Agency for International Development (NORAD). The expansion funds are expected to increase the number of Grameen Bank borrowers from 156,000 to 800,000 by 1990.

The **International Bank for Reconstruction and Development (IBRD)**, known as the **World Bank**, uses the **International Development Association (IDA)** "soft loan" window of the Bank to make concessional loans to the poorest developing countries for economic development projects. IDA loans have primarily been used to support agricultural development, infrastructure (roads, port facilities and railways) improvements, energy and water development, urban development, and structural and sectoral adjustment. Thus far, micro-enterprise finance has not been a part of IDA or World Bank project lending or structural adjustment loans. Moreover, the World Bank's involvement with micro-enterprises to date has been limited. The World Bank has only provided assistance to micro-enterprises through components of larger urban development programs. Such programs include the "Small-Scale Enterprise Credit Program Under the Second and Third Calcutta Urban Development Projects" and the "Small Business Support Component Under the World Bank's Second Urban Development Project in El Salvador."

The **IDA Special Facility for Africa**, created in February of 1985, could be an effective mechanism for promoting micro-enterprise development in Africa. The objective of the Special Facility is to help African countries initiate economic policy reforms which enhance overall economic development, increase food security and self-sufficiency. Special Facility credits for sectoral and structural adjustment could include micro-enterprise finance as a component of policy reforms which would promote lending to the rural and urban poor. $1.5 billion is expected to comprise total funding for the Special Facility from the World Bank and bilateral donors. The U.S. contribution for FY'86 to the Special Facility totals $71.8 million.

## ENHANCING MICRO-ENTERPRISE FINANCE

The financial crisis of many developing countries resulting from low export earnings, large public and private debt, capital flight, and inability to service external debt has become of mutual concern to developing countries as well as for industrialized countries. Debate centers on the need of developing countries to restructure their foreign debt and domestic monetary policies. Economists explain, however, that the costs of structural adjustment measures in developing countries will remain high and the infusion of new capital to these countries will be essential. It is in this context that the impact of investments in micro-enterprises can contribute to the overall health of the economy.

Micro-entrepreneurs have proven their capacity to generate savings and willingness to reinvest earnings into new businesses and their surrounding economies, all of which contribute to overall economic development and the cost-effectiveness of micro-enterprise credit. While interest in financing the development of entry-level micro-enterprises has been growing significantly in the past few years, little has been accomplished that would significantly elevate the profile of micro-enterprise finance and thus impact on the overall health of developing country economies.

A new initiative of The Policy Sciences Center, Inc., addresses the need to substantially increase financing for entry-level micro-enterprises in developing countries. The initiative calls for the establishment of a special fund within the World Bank for financing entry-level micro-enterprises through loans made to local financial intermediaries in developing countries. Hearing testimony of The Policy Sciences Center explained the significance of a centralized fund for financing entry-level micro-enterprises: "The fund could do two things .... It could provide a variety of incentives to [developing] countries and to financial intermediaries. Incentives would be in the form of loans to finance existing lenders which would lend to micro-entrepreneurs. The second function of the fund would be to attach conditions to large structural adjustment loans that would require central banks to establish guaranty funds for the local banks to lend to micro-enterprise borrowers." Hearing testimony from ACCION International also recommended that conditions be attached to bilateral loans to developing countries for the purpose of supporting micro-enterprise finance.

Expansion of micro-enterprise finance also involves the need for financial institutions to streamline application and repayment schedules which will enable entry-level micro-enterprise borrowers to gain access to formal credit. Deregulation of interest rates will reduce the transaction costs of borrowing, simplify application procedures, and increase lenders' willingness to finance micro-enterprises. The development of intermediaries to help finance entry-level micro-entreprenuers, and in particular assist women borrowers, is important for the expansion of micro-enterprise credit.

## COMMITTEE RECOMMENDATIONS

Based on research, meetings and formal hearings, the Committee recommends:

1. Financial institutions, bilateral and multilateral donors, central and local banks should target credit assistance to micro-enterprises owned by the poor. Using basic poverty indicators such as household food availability and household income to determine eligibility, financial institutions should reserve a portion of their total loan volume for financing the economic activities of poor micro-entrepreneurs. Financial intermediaries should work through indigenous organizations including non-governmental organizations and cooperatives to better assist micro-enterprise borrowers.

2. In view of the Committee's finding that lack of collateral is one of the main obstacles to micro-entrepreneurs receiving credit, financial institutions should recognize that the elimination of collateral requirements and streamlined loan application and processing will better enable poor micro-entrepreneurs to obtain credit. In addition, cumbersome fee requirements and formal registration for loan processing should be eliminated for such micro-enterprise lending.

3. Multilateral development institutions such as the World Bank and regional development banks should make micro-enterprise finance a higher priority in lending to the poorest in developing countries.

4. Special funds should be established within the World Bank and regional development banks such as the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank for the sole purpose of lending to financial intermediaries (including indigenous PVOs and cooperatives) who, in turn, will lend to entry-level micro-enterprise borrowers.

5. Loan guaranty funds for financing entry-level micro-enterprises should be established by multilateral development banks. Conditionality requirements on larger structural adjustment loans should include the establishment of guaranty funds through appropriate financial institutions in the borrowing countries.

6. The Agency for International Development's (AID) Private Enterprise Initiative should place a greater emphasis on credit assistance to entry-level micro-enterprise borrowers. Micro-enterprise credit assistance should target the poorest of the poor using basic poverty indicators such as household food availability and household income indicators.

7. Training of bilateral donor agency staff on effective mechanisms for lending to entry-level micro-enterprise borrowers should be enhanced. Training should take place in the Agency for International Development's Private Enterprise Bureau and in the Bureau of Science and Technology. Micro-enterprise project training should be coordinated through the appropriate regional bureaus.

8. The Food for Peace Program (P.L. 480) should utilize local currencies, generated from the Title I concessional sales program, to provide capital to financial intermediaries for the sole purpose of lending to entry-level micro-enterprise borrowers in developing countries.

9. The Bureau of Science and Technology in conjunction with the Food for Peace Title I Office should initiate a micro-enterprise pilot project using P.L. 480 Title I local currencies to provide credit assistance through indigenous organizations to micro-entrepreneurs.

10. Twenty-five million dollars for each fiscal year 1987-89 should be appropriated for IFAD's Special Fund for Sub-Saharan Africa. Congress should support and encourage IFAD to continue efforts to finance micro-enterprises.

11. Congress should continue to support micro-enterprise development activities carried out by the African Development Foundation and the Inter-American Development Foundation.

## APPENDIX

### Credit Case Studies

The following case studies illustrate the effectiveness of credit assistance to micro-entrepreneurs as well as different mechanisms for the delivery and recovery of credit assistance to this sector:

### Grameen (Rural) Bank in Bangladesh

**Background:**

The Grameen Bank was started as an "action research project" in 1976 by Dr. Muhammad Yunus, Economics Professor at Chittagong University in Bangladesh. The project was to determine whether financial resources made available to the poor on reasonable terms and conditions could generate productive self-employment without external assistance. The first bank opened in 1979 with financial support from the Bangladesh Bank. Encouraged by its initial success the project was expanded to other districts in Bangladesh with the assistance of the International Fund for Agricultural Development in April 1982. In September, 1983, the the project was transformed into a specialized financial institution called the Grameen Bank. In 1984, the Grameen Bank had its first full year of operation independent of the national government bank. It began the year with 86 branches in 1,249 villages with loans to 58,000 borrowers. By the years end, the bank had 153 branches in 2,268 villages with loans to 121,051 borrowers. Currently the bank has 226 branches and operates in 3,600 villages assisting approximately 156,000 borrowers. 65 percent of the borrowers are landless women. The average loan size is $60; the largest loan is approximately $200. The loan recovery record is near 99 percent.

The Grameen Bank is 60 percent owned by the government and 40 percent owned by the borrowers. The policy making organ of the bank is the board of directors consisting of seven members including the chairman appointed by the government, four persons, preferably two women, elected by the borrower shareholders, and the managing director, who is the chief executive officer of the bank. Except for transactions in foreign exchange, the Grameen Bank is empowered to carry out the entire range of normal banking functions including surveys and research, investment counseling, technical and extension services to clients. The Grameen Bank, therefore, makes its own policy and has its own branches and staff. Plans are now underway for the Government to sell its share of the Grameen Bank to the borrowers.

**Operations of Grameen Bank:**

Borrowers are landless women and men and credit is given for the most part for non-agricultural activities. Borrowers must organize themselves into groups to receive loans for which no collateral is required. The Grameen Bank workers go into villages to transact banking operations. The branch is established in the community within easy reach of the potential target population. The bank workers go into the villages to talk about the Grameen Bank and promote the formation of groups of five like-minded persons with similar economic backgrounds. Before loans are given to eligible borrowers, they must complete an extensive training program (one to two weeks) where they learn the operations and procedures of the Grameen Bank. Each group elects its members a chairman and secretary. The group must then pass a "test" before they are granted loans. During this "test", the members must satisfy the Grameen Bank staff of their integrity and seriousness, understanding of the principles and procedures of the bank, and their ability to sign their names. Each member of the group must attend weekly meetings and save one taka (U.S.$0.08) every week as part of the group savings.

Several groups in the same area are federated into a "centre" and must elect a centre chief and deputy centre chief. They conduct weekly meetings of the centre, recommend loan proposals and supervise loan

activities. Loan requests are first formulated and considered within the group. They are then reviewed and approved by the centre chief, the Grameen Bank worker, the programme officer, the branch and the zone manager. Initially, two members in the group are given loans and upon successful compliance with the regulations, additional group members become eligible for loans. The loans are repaid over a year in 50 weekly installments of equal amounts. Interest is 16 percent and is repaid in the last two weeks of the year.

In addition to weekly meetings, weekly installment payments and weekly personal savings of 1 taka per person, each borrower is required to pay a group tax of five percent of the loan received.
The weekly savings and the group tax constitute the "group funds." Individual members can borrow from the group fund for consumption and investment purposes with the consent of the group members. Additionally, group members are required to contribute to an "emergency fund" consisting of a quarter of the total amount of interest charged by the Grameen Bank on its loans. The use of these funds is for the development of health, life and asset insurance for group members.

**Loan Activities:**

For female borrowers, the two major loan activities are livestock and fisheries, and processing and manufacturing which combine to account for 80 to 90 percent of all loan disbursement over the period from 1980-83. Within this total, the share of livestock and fisheries has declined from 61 to 43 percent, and processing and manufacturing has risen from 30 to 40 percent. The share of trading and shopkeeping rose significantly over the 1980-83 period from 8 to 16 percent. For male borrowers, trading and shopping is the most important sector, rising from 45 to 50 percent from 1980-83. Next in order of importance are processing and manufacturing, livestock and fisheries, and transport services. See Appendix Charts 1, 2 and 3.

The majority of loan activities are organized on an individual and family basis. Loans for collective or joint activities were introduced in 1982 and in 1983. Collective loans during the 1982-83 time period accounted for 2.7 percent of the total loan disbursement. Joint enterprises comprise a range of activities such as cultivation, market leasing, rice milling, fish ponds, handloom weaving and power pumps. Most of these joint enterprises are run by men's groups, the only exception being rice milling, for which loans are given exclusively to women's groups.

Loans for the financing of economic activites of landless women and men constitute the core of the Grameen Bank. The bank, however, has gradually introduced a range of subsidiary activities including improvements in personal hygiene and sanitation, health care, nutrition, family planning, literacy and children's education, encouragement of social reforms, planting of trees, and cultivation of fruits and vegetables.

**Economic Impact:**

The investments made by Grameen Bank borrowers have been extremely productive and have contributed to significant improvements in household output, income and consumption. Three separate surveys of Grameen Bank borrowers concluded that the loans contributed to significant increases in income levels (see Chart 4). Activities yielding relatively high income increases include homemade food making, paddy husking, rice and wheat selling, colai crushing, sweet making and bamboo work. Activities with the highest return on capital and labor investment have been: weaving, cottage industry products, trading, peddling, crop trading and pottery.

The significant increases in income are further documented by the excellent repayment record of near 99 percent. Not only have borrowers repaid the principle, but the interest payments and a variety of additional deductions (group fund, emergency fund) amount to a minimum of 25 percent of the loan. Unless the loans were highly

productive in generating additional income, taking into account the very low income-level of Grameen Bank borrowers and lack of assets of the borrowers, such a high repayment record would not have been possible.

Chart No. 3.--Types of Loans Made, 1980, 1981, 1982, and 1983

(Loan Amounts Disbursed in Thous. Tk)

| | 1980 | | 1981 | | 1982 | | 1983 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | (%) | Amount | (%) | Amount | (%) | Amount | ( |
| Loan Purpose[1] | | | | | | | | |
| Agriculture/Forestry | 346 | (3) | 427 | (1) | 797 | (2) | 1,382 | (1.5) |
| Livestock/Fisheries | 5,039 | (25) | 7,678 | (23) | 9,667 | (23) | 25,850 | (2.9) |
| Processing/Manufacturing | 4,109 | (20) | 8,781 | (27) | 10,283 | (24) | 25,936 | (26.0) |
| Trading/Shopkeeping | 7,477 | (37) | 14,297 | (42) | 17,963 | (44) | 37,638 | (37.7) |
| Transport Services | 3,176 | (15) | 2,345 | (7) | 2,175 | (5) | 5,830 | (5.9) |
| Joint Enterprises | — | (–) | — | (–) | 989 | (2) | 2,612 | (2.7) |
| Total | 20,147 | (100) | 33,528 | (100) | 41,077 | (100) | 99,248 | (100) |
| Average Size of Loan | 1,730 | | 1,545 | | 1,699 | | | |

*Source* Grameen Bank Annual Reports, 1980, 1981, 1982, 1983

1 All loans were made to private individuals to finance individual activities with the exception of loans classified as "Joint Enterprise" which were group loans and amounted to only 2% of the total loans made.

Chart No. 4.--Disbursement of Loans by Sectors

(Figures in '000 TK)

| Sectors | Male Loanees | | | | Female Loanees | | | |
|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1980 | 1981 | 1982 | 1983 |
| Agriculture & Forestry | 293 | 391 | 608 | 1,033 | 53 | 36 | 189 | 349 |
| | (1.8) | (1.7) | (2.1) | (1.6) | (1.3) | (0.4) | (1.4) | (1.0) |
| Livestock & Fisheries | 2,589 | 2,831 | 3,792 | 10,552 | 2,450 | 4,847 | 5,875 | 15,298 |
| | (16.1) | (12.4) | (13.3) | (16.5) | (60.5) | (45.6) | (43.6) | (43.1) |
| Processing & Manufacturing | 2,878 | 4,379 | 5,032 | 12,034 | 1,231 | 4,402 | 5,251 | 14,003 |
| | (17.9) | (19.1) | (17.7) | (18.8) | (30.4) | (41.4) | (39.0) | (39.5) |
| Trading & Shopkeeping | 7,160 | 12,961 | 15,890 | 31,941 | 317 | 1,336 | 2,073 | 5,595 |
| | (44.5) | (56.6) | (55.9) | (49.8) | (7.8) | (12.6) | (15.4) | (15.8) |
| Transport services | 3,176 | 2,345 | 2,175 | 5,785 | — | — | – | 45 |
| | (19.7) | (10.2) | (7.6) | (9.0) | | | | (0.1) |
| Collective enterprises | — | — | 918 | 2,543 | — | — | 71 | 69 |
| | | | (0.3) | (4.0) | | | (0.6) | (0.2) |
| Total Amount | 16,096 | 22,906 | 28,443 | 63,887 | 4,050 | 10,621 | 13,460 | 35,359 |
| | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) |

*Source* GBP, *Annual Reports*, 1980, 1981, 1982.

Chart No. 5.--Disbursement of Loans by Major Activities and Sex

(Figures in % of total loans disbursed)

| Activity<br>Male Loanees : | 1980–81 | 1982 |
|---|---|---|
| Paddy & rice trading | 8.0 | 10.0 |
| Bull & cow fattening | 4.9 | 6.2 |
| Grocery & stationery shops | 5.8 | 6.1 |
| Milch cow raising | 8.4 | 6.0 |
| Seasonal crops trading | 2.4 | 5.1 |
| Cattle and goat trading | 4.7 | 4.8 |
| Paddy & pulse husking | 4.7 | 3.9 |
| Cart transport | 3.6 | 3.5 |
| Rickshaw transport | 9.6 | 3.4 |
| Handloom weaving | 2.6 | 3.3 |
| Handloom products trading | 4.1 | 3.3 |
| Wood & timber trading | 1.9 | 2.2 |
| Cloth trading | 1.6 | 2.0 |
| Mustard seed trading | 1.9 | 1.9 |
| Peddling | 2.0 | 1.8 |
| Paddy cultivation | 0.8 | 1.8 |
| Gur Trading | 1.9 | 1.8 |
| Fish trading | 1.4 | 1.5 |
| Vegetables trading | 1.8 | 1.5 |
| Flour trading | 1.6 | 1.6 |
| Bettle leaf & nut trading | 1.2 | 1.3 |
| Oil pressing | 2.0 | 1.3 |
| Other major cottage industries | 5.0 | 5.4 |
| Total | 81.9 | 79.7 |

| Activity<br>Female Loanees | 1980–81 | 1982 |
|---|---|---|
| Milch cow raising | 36.7 | 30.1 |
| Paddy and pulse husking | 24.9 | 25.2 |
| Bull & cow fattening | 11.3 | 11.9 |
| Stationery and grocery shops | 3.2 | 5.0 |
| Paddy and rice trading | 1.9 | 3.3 |
| Handloom weaving | 1.4 | 2.4 |
| Cane & bamboo works | 1.6 | 2.1 |
| Flour trading | 1.4 | 2.1 |
| Rice products making | 1.2 | 1.9 |
| Peddling | 1.0 | 1.4 |
| Tailoring | 1.9 | 1.3 |
| Mat making | 1.3 | 1.3 |
| Fish net making | 1.5 | 1.1 |
| Oil pressing | 1.7 | 1.0 |
| Goat and poultry raising | 1.3 | 1.4 |
| Total | 92.3 | 91.5 |

Chart No. 6.--Summary of Three Survey Results on Impact on Incomes

| Survey Sponsored By | Sample | Period | Income Before Loan (TK) | Income After Loan | Per Cent Increase |
|---|---|---|---|---|---|
| 1. Bangladesh Institute of Bank Management (BIBM) | 50 Women in Silimpur, Tangail | 1980–81 | 428 (monthly) per family | | + 73 |
| 2. Bangladesh Bank (BB) | 175 members, 90 men and 85 women, drawn from 5 branches in Tangail and 4 branches in Chittagong | 1981–82 | 5,806 per annum per family | 9,166 | + 58 |
| 3. Bangladesh Institute of Development Studies (BIDS) | 600 randomly selected members | 1980–81 | 1,037 per capita per annum (before 1980) | 1,740 (1982) | + 68 |

*Source* : The title of the studies are cited in the text.

**The Program for Development of Micro-Enterprises (PRODEME) of the Dominican Development Foundation in Santo Domingo, Dominican Republic**

**Background:**

The Dominican Development Foundation (DDF) is a private voluntary organization founded in 1965 which operates in rural areas of the Dominican Republic. The Dominican Development Foundation became interested in an urban micro-enterprise project in 1980 and began the Program for the Development of Micro-Enterprises (PRODEME) in 1981. Funding assistance was provided from the Agency for International Development, the Inter-American Foundation, Appropriate Technology International, and local contributions in the Dominican Republic. PRODEME includes two components: a "solidarity group" component consisting of small groups of five to eight members who mutually guarantee a loan made to the group for individual purposes; and, a "micro-enterprise" component consisting of loans to individual enterprises. Through December 1983, 343 loans were made to solidarity groups consisting of approximately 2,000 members. The average loan being $233 per member. Additionally, 211 loans averaging $1,817 have been dispursed to individual businesses in the micro-enterprise component of the project.

The income-generating activities of the solidarity group members are much smaller than those of the micro-enterprise group. 83 percent of the borrowers in the solidarity groups are tricycle cart vendors (tricicleros) and the other 17 percent are seamstresses and food vendors. The enterprises of the micro-enterprise component usually consist of two full-time employees and have a capital investment close to $4,000.

For the purpose of this report, the case study will concentrate on the solidarity group component of PRODEME.

**Operations of the Solidarity Group:**

The tricycle cart vendors of the project receive $249 toward the purchase of a "triciclo" -- which they previously rented -- plus $21 for working capital. The loan is to be repaid in fifty-two weekly payments. The working capital group, the seamstresses and food vendors, receive up to $249 to be used as working capital, and must be repaid in fifty-two weekly installments. A flat interest rate of 24 pecent per annum is charged.

All the tricicleros are male and on the average are thirty years old. In contrast, three-quarters of the working capital group are female and on average, about ten years older than the tricicleros.

The solidarity group emphasizes participation, and the group members are enccuraged to take an active role in the project. Group members already in the project are responsible for recruiting new members, who organize themselves into provisional groups. Newly formed groups must attend a training course on the project. By the end of the group course, members must elect a group president. Before the group can obtain credit, it must participate in barrio-level meetings of one to two months, further testing group cohesion and commitment to the project. Group membership reinforces the individual's sense of responsibility for loan payback, as each group member cosigns for the debt of the other members.

When asked if they would prefer a group loan to an individual loan, on average six out of ten PRODEME group members said they would prefer group loans. 74 percent said they would take out a second loan with the same group, 24 percent said they would take out another loan with some of the members of their group, and only 2 percent said they would prefer to take out another loan with another group.

One of the most significant impacts of the solidarity group program has been the formation of an association of tricicleros, known as the "Dominican Association of Tricicleros 'San Jose Obrero.'" Members of the association have created a voluntary emergency fund to be used in the event of sickness or death by association members' families. The association is in the process of establishing a savings account and a cooperative loan program.

**Economic Impact:**

The street economy in the Dominican Republic has suffered as a result of a severe recession in the Dominican economy. When asked if the current economic conditions made it difficult to increase earnings, 88 percent of the tricicleros and 73 percent of the working capital group responded in the affirmative. However, through the ownership of the triciclero, tricicleros will save $388 a year in rental fees, representing a 16 percent increase in annual income. Increases in the income of the working capital group has not been documented. By December, 1983, the loan repayment rate had been estimated at 78 percent.

## The Small Business Scheme of the National Christian Council of Kenya

**Background:**

The National Christian Council of Kenya (NCCK), recently renamed the National Council of Churches of Kenya, is currently carrying out the first income-generation project developed under the Program for Investment in the Small Capital Enterprise Sector (PISCES) in Africa. Its Small Business Scheme (SBS) was established by NCCK in 1975. The program was designed to provide management and financial assistance to small-scale enterprises in the urban informal sector of Nairobi, Kenya. The Small Business Scheme set out to reach both groups and individual micro-entrepreneurs principally concerned with their own survival and that of their dependents. Combined lending in 1977 and 1978 amounted to twenty loans totaling $8,599. In response to increased demand, NCCK received additional funding from A.I.D to upgrade the program and expand it to cover the Nairobi, Mombasa, Kisumu/Kakamega and Nakuru/Eldoret areas. Additionally, the revolving loan fund was expanded to a total of $110,000. The key to the expansion of the program was the ongoing integration of the entreprenuership component with NCCK's Urban Community Improvement Program.

**Operations of the Small Business Scheme:**

To ensure the project retained its social focus and served the level of clientele traditionally reached by NCCK, all potential borrowers must be interviewed by the social workers in each community. The interview with the social worker is designed to determine whether the client is committed to the project and their level of entrepreneurship.

Fixed collateral requirements are waived for all applicants to ensure the most poor are the beneficiaries. Three third-party co-signers are required of individual applicants. Groups may collectively guarantee repayment. Consistent with the enterprises assisted, most of NCCK's lending has been for working capital.

Non-financial assistance has been concentrated in three areas: use of credit/education; procurement and stock control; and, bookkeeping. Licensing, marketing and production-related assistance have been steadily diminished as the need for such assistance has declined.

The typical borrower of the Small Business Scheme is female, between thirty and fifty years of age, possessing little or no education, and living in an urban slum area with anywhere from five to fourteen dependents. An estimated 75 percent of the SBS individual borrowers are women with small-scale retailing the most predominant loan activity. Additionally, 90 percent of the SBS group loans are to women for small-scale retailing. By mid-1984, the Small Business Scheme reached over 350 people with financing to sixteen groups. An estimated 368 individual borrowers were also assisted by the project. Greater emphasis on group lending has become a concentration of the Small Business Scheme in order to reach larger numbers of the very poor.

**Economic Impact:**

The Small Business Scheme has helped its borrowers generate income and create a number of new job opportunities. Initial income gains have been significant; however, monthly profit levels have tended to decline somewhat time as business capital is diverted to household use. Steady work and an improved income have had a positive impact on the welfare of families. Living standards in almost all cases have risen. With increased income, more money is available for household consumption. The NCCK social workers have noted marked improvements in health and nutritional levels.

Borrowers are also becoming more financially self-reliant as demonstrated by the almost universal ability of borrowers to pay school fees and buy school clothes for their children. NCCK social workers have found that the SBS borrowers take their advice more seriously on such matters as health, nutrition, sanitation, child care and family planning due to borrowers increased economic activity.

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